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May 29, 1980

Honorable John Vasconcellos, Chairperson
Assembly Ways and Means Committee

Honorable Albert S. Rodda, Chairperson
Senate Finance Committee

MAY REVISION OF GENERAL FUND REVENUES AND EXPENDITURES FOR 1979-80 AND 1980-81 FISCAL YEARS

The economic forecast which was the base for the Governor's Budget revenue projections called for a national recession through the first half of 1980, with gradual recovery following. The downturn was expected to be far less severe than the 1973-75 experience, due in large part to the apparently good inventory positions businesses had maintained. California was seen as undergoing only a mild setback, with a resumption of normal growth patterns by early 1981. Critical aspects of the Budget forecast were: (1) the strong rate of inflation; (2) tight monetary policy through the first quarter of 1980 with easing in subsequent quarters; (3) a minor tax cut mid-1980; and (4) elimination of the scheduled increase in the social security contribution rate as of January 1981.

Subsequent developments necessitated a significant revision in the economic outlook. Consumers and business did not respond as expected to Federal Reserve (Fed) policy actions late in 1979 to restrain demand. Surprisingly large gains were registered in gross output data for the final quarter of 1979; the first quarter of 1980 registered a minor increase.

More significant, however, were the further actions by the Fed in February and March. These signaled the intent to force a cutback in demand to reduce inflationary pressures. Interest rates shot up rapidly. Credit growth restrictions led to a widespread curtailment of credit use by consumers. Sales of big-ticket items plummeted almost overnight. By early May, auto sales nationally had sagged to the lowest point since early 1975. Housing starts declined abruptly to a 1 million unit rate. Other consumer sectors were adversely impacted by the general uncertainty which was prevalent. Investment decisions were postponed. Layoffs accelerated and unemployment rates jumped sharply in April. The consumer price index continued to rise rapidly, reflecting in part the higher interest rate structure.

In brief, the long-awaited recession had finally arrived.

Financial developments cannot be over-stressed in the recent environment. The run-up in rates at the end of March was probably excessive. The current rapid downtrend in rates may therefore be less significant than would otherwise be the case. There is also the possibility that the Fed will intervene to keep rates from falling so fast that a new phase of strong demand sets in before the inflationary situation can be brought under greater control.

The current forecast is for a recession from the second through the fourth quarters of 1980--not as severe as 1973-75, but a greater decline than in a "normal" postwar downturn. Real gross national product is expected to fall by 3-1/2 percent from peak to trough. Auto sales should total 9 million units for the year. Housing starts should be just over 1 million units. The rate of change in the CPI should moderate gradually. No tax cut or wage/price controls were assumed. Furthermore, the social security rate was allowed to rise as of next January.

With respect to California, there still appears to be a substantial amount of support for the economy, which will temper the recession in this area. The aerospace and service industries are particularly strong. Of equal significance, however, is the fact that those industries most affected by cyclical turns such as heavy manufacturing are less important in California than in many other industrial states. Wage and salary employment should still be up by approximately 2 percent in 1980. Personal income should rise by 12-1/2 percent. Construction activity will probably decline further, but should be on a recovery path by early 1981. The unemployment rate should peak at 8-1/2 to 9 percent by early next year.

The forecast of consumer prices is particularly depressing this year for all of us, but especially so in the context that so much of the State's operations are tied by statute to the CPI. Both the income side (indexing of PIT) and the outgoing side (such as many large health and welfare programs), are directly impacted by the index. Changes in the California CPI have outdistanced those in the U.S. index since mid-1976. This is attributable to the specific commodity-service weights in the CPI for the three metropolitan areas in the California index. Housing is far more heavily weighted in this State than elsewhere and housing prices and mortgage rates here have been out of sight. Recent declines in food prices and moderation in some other categories have therefore been more than offset by gains in home prices, mortgage rates, and other housing cost items.

The current outlook has the U.S. CPI rising by 14 percent for 1980; the California index is expected to be up by 16.4 percent. By 1981, however, both the national and State indices should be increasing at about the same rate as differences between the California and U.S. housing markets decrease.

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Regardless of the near unanimity in the forecasting profession that we are in a recession at the present time, there do exist various factors which could substantially alter economic developments from those now anticipated. The recession could, of course, be better or worse than forecast. The policy reactions which either of these alternatives could elicit would significantly change the outlook through 1982 or even beyond. Further changes in monetary policy, a major redirection of Federal spending, tax cuts, wage/price controls, modification of social security contribution schedules, or severe energy shortages would lead to the necessity for new look at economic conditions for 1980 and 1981.

Selected major economic measures are summarized in Table I and IA for the Budget Forecast and the May Revision.

GENERAL FUND

REVENUE CHANGES

(See Table II)

Overview

General Fund revenue and transfers in 1979-80 are expected to be $125 million (0.7 percent) above the Budget estimate. This increase is due entirely to higher income tax receipts. However, total General Fund income in 1980-81 is estimated to be $68 million (0.4 percent) below the forecast because income tax receipts will be reduced due to indexation. In the Budget Forecast, the annual percent change in the California consumer price index from June 1979 to June 1980 was 12.0 percent. In May 1980 the forecast was revised to 16.9 percent. This change results in a substantial reduction of forecast revenues in FY 1980-81, due to the indexing provisions of the personal income tax law. In addition, the Budget estimate assumed that $77.8 million of tidelands oil revenue would be transferred to the General Fund. Legislation to effect this transfer has not been enacted and therefore it is not appropriate to include this revenue. Increases in the bank and corporation tax and other sources will offset part of the above reductions.

On balance General Fund income for 1979-80 and 1980-81 is expected to be below the Budget forecast, by $57 million, or less than 0.2 of 1 percent.

Actual revenue collections from December 1979 through March 1980 were above the estimates presented in the budget by about $100 million in each of the four months. However, in April this trend was reversed when collections were about $160 million below the budget forecast. Thus, through April actual collections are only $223 million above the estimates presented in the budget.

Personal Income Tax

1979-80	+$185,000,000
1980-81	-$130,000,000

Personal income tax revenues are up $185 million for the current fiscal year due to higher declarations of estimated payments. The higher declarations is believed to be primarily due to increased capital gains income.

The forecast for the budget year is down because the estimated annual percent change in the California Consumer Price Index is higher than expected last fall. An increase in the forecast of personal income was not sufficient to overcome this loss.

Sales and Use Tax

1979-80	+$10,000,000
1980-81	--

General Fund revenues should exceed the budget estimate by $10 million in 1979-80 due to the previous overestimate of the Transportation Planning and Development Transfer (TP&D). In the budget, it was estimated $110 million would be transferred. It now appears that the transfer will be $100 million.

No change was made in the budget estimate of total taxable sales for 1980 and 1981. Although the decline in auto and construction sales should reduce the total by $2.4 billion, gasoline sales and higher prices will offset this decline due to higher prices than previously forecast.

In real dollar terms, taxable sales are expected to be much lower than estimated in the Budget. With the substantial increase that has occurred in inflation, real sales are expected to fall 4.5 percent in 1980 with only a modest increase in 1981 as the economy recovers.

Bank and Corporation Tax

1979-80	-$99,000,000
1980-81	+$83,000,000

Corporate profits for 1979-80 are expected to be slightly below the budget estimate, (-0.7 percent). Budget year profits, however, should be above the estimate by 4.4 percent. The increase in budget year profits is attributable primarily to oil industry profits.

The adjustments to the bank and corporation tax revenue estimate primarily reflect cash-flow changes. Reductions in the April and June 1980 prepayments of approximately $80 million are expected to be collected in March of 1981. (All of the estimates include the 12 percent interest penalty.)

GENERAL FUND

EXPENDITURE CHANGES

(See Table III)

BUDGET EXPENDITURES

The following expenditure revisions include all Department of Finance letters; reestimates of automatic school, Medi-Cal and welfare appropriations; deficiency legislation; prior year surplus adjustments; and current year expenditure reestimates, including 1979-80 chaptered legislation to date. They do not reflect changes by your fiscal committees or legislation yet to be enacted.

These changes will result in a reduction in expenditures of $86.2 million in 1979-80 and an increase in expenditures of $42.2 million for 1980-81. Table III (attached) is a summary of the changes.

K-12 (Elementary and Secondary)	1979-80	-$3,600,000
	1980-81	-$38,500,000

The revised current year expenditures for Education K-12 include $0.7 million savings in Debt Service on Public School Building Aid bonds and another $4.0 million in savings to other programs: Department of Education support ($0.8 million); Division of Libraries ($0.6 million); Child Nutrition ($2.0 million); Child Care ($0.4 million) and other programs ($0.2 million). These savings will be partially offset by an estimated cost increase of $1.1 million for loans to school districts.

School apportionments for K-12 are funded in 1979-80 from a fixed appropriation contained in AB 8 (Chapter 282, Statutes of 1979). It is estimated that claims by school districts will exceed by approximately $31.9 million (or 1/2 of one percent) the $5.8 billion fixed appropriation contained in AB 8. This is down $27.2 million from the level originally estimated at the time the Governor's Budget was prepared. This change is due to new estimates of revenue limit increases ($13.8 million) and a decrease in State School Fund revenues ($8.0 million), both offset by an increase in K-12 property tax revenues ($49.0 million).

The revised expenditure estimate for 1980-81 indicates a net reduction of $38.5 million from the Governor's Budget level, due primarily to: (1) a revision in the estimate of property tax revenues available to school districts, (2) a decrease of 23,900 (down to 4,165,000) in average daily attendance from the 4,188,900 level projected in the Governor's Budget, and (3) an increase of 12,300 (up to 390,000) in the projected enrollment of handicapped pupils from the 377,700 projected in the Governor's Budget.

Also included is a reduction of $4.2 million in the Child Nutrition Program due to a revised projection of the number of meals to be served (a change from 514 million to 462 million meals). An additional reduction of $4.7 million was due to lower projections of funds needed to meet local mandated costs, primarily collective bargaining in public schools (Chapter 961, Statutes of 1975) and sick leave retirement benefits for teachers (Chapter 89, Statutes of 1974).

In addition, due to the varying interpretations of the language in Section 100.1 of the Revenue and Taxation Code, a new control section, 12.8, has been proposed. If approved, the section would prevent the possibility of misinterpretation of the language and the unanticipated appropriation of funds for the 1980-81 fiscal year. If the proposed language is not approved, an unbudgeted expenditure of $86.5 million will be necessary.

University of California	1979-80	--
	1980-81	+$10,000,000

The 1980-81 proposed expenditures for the University are estimated to increase by $10.0 million over the level proposed in the Governor's Budget. A Department of Finance letter requested a utilities price increase ($10.3 million) and an increase for a U.C. Davis program in clinical psychology ($0.2 million). A reduction of $0.5 million reflects the continued availability of funding for disabled student services from the Department of Rehabilitation.

California State University and Colleges	1979-80	-$5,700,000
	1980-81	+$1,500,000

The 1979-80 expenditures for CSUC have been adjusted to reflect the latest estimate of funds required to operate for the balance of the current year. Estimated expenditures are $5.7 million lower than originally anticipated. This surplus represents approximately 0.7 percent of the funds available to CSUC. The projected balances are less than might have been expected. This is due to: (1) the unbudgeted funding requirements resulting from an over-enrollment of approximately 2,000 FTE, and (2) the projected costs associated with early retirement as provided for by AB 876 (Chapter 656, Statutes of 1979).

The 1980-81 proposed expenditure level for CSUC is estimated to increase $1.5 million as stated in two Department of Finance letters. The first Finance letter requests a reduction of $0.1 million for a combination of technical adjustments to the budget. This net reduction provides for an increase of $0.3 million for electronic data processing communications, $0.2 million for computer space rental at the Division of Information Systems, and $0.7 million to cover utility rate increases. These increases are offset by an increase in projected reimbursements totalling $1.3 million for nonresident tuition. This would result in a reduced requirement for General Fund support in the same amount.

In addition to this budget year reduction of $0.1 million, the unencumbered balance of funds available in 1979-80 for batch computer replacement has been proposed for reappropriation in 1980-81 by a second Finance letter. This action will thereby increase expenditures for batch computer replacement by approximately $1.6 million in 1980-81.

Medi-Cal	1979-80	-$25,100,000
	1980-81	+$50,000,000

Medi-Cal General Fund costs for 1979-80 are now estimated at $2,057.9 million, a reduction of $25.1 million from the Governor's Budget. These savings result from reduced use within the program. Total savings are partially offset, however, by: (1) increased county administration expenditures due to increased monthly claims, and (2) receipt of retroactive claims for fiscal year 1978-79 from Los Angeles County hospitals.

State costs for 1980-81 are now estimated at $2,319.5 million, an increase of $50.0 million over the Governor's Budget. Program use in 1980-81 is expected to increase by 3.5 percent from 1979-80 or 0.5 percent greater than expected in the Governor's Budget. Increases include $39.6 million in medical expenditures, $1.6 million in county administration, and $10.5 million in fiscal intermediary expenditures. Slight reductions are projected in expenditures for Child Health Disabilities Prevention ($0.5 million) and in provider rate increases ($1.2 million).

Developmental Disabilities	1979-80	+$100,000
	1980-81	+$13,200,000

The 1979-80 expenditures for programs for the developmentally disabled have been reestimated at $430.6 million, an increase of $0.1 million over the Governor's Budget.

The 1980-81 revised budget includes $501.6 million for programs for the developmentally disabled, $13.2 million above the amount proposed in the Governor's Budget. A Department of Finance letter submitted to the Legislature for this program includes: (1) $1.8 million to fund increased expenditures for drugs, food and utilities in State hospitals; (2) an adjustment in State hospital staffing of $9.1 million and 546 positions as a result of revised end of the year population estimates (from 8,150 originally proposed in the Governor's Budget to 8,530 due to a lower than anticipated hospital population decline in the current year); (3) $0.1 million to fund leased space for the University of California research program at Sonoma State Hospital; (4) $1.1 million to carry-out the Department's proposed plan for community placement of Patton State Hospital residents; (5) a reduction of $2.4 million due to a reestimate of expenditures for the Work Activity Program; and (6) an increase of $3.5 million for purchase of services through regional centers.

Mental Health Services		
	1979-80	-$10,300,000
	1980-81	+$700,000

The 1979-80 funding for the Mental Health Programs have been reestimated to be $485.0 million, due to lower than budgeted expenditures ($10.0 million) in the Local Mental Health Program.

The Governor's Budget for 1980-81 includes $183.4 million for State hospital services for the programs for the mentally ill. This estimate has been revised to include a $0.7 million increase to fund increased cost of food, drugs and utilities in the State hospitals.

SSI/SSP		
	1979-80	-$5,100,000
	1980-81	-$2,900,000

General Fund costs for 1979-80 are now estimated to be $1,082.7 million, down $5.1 million from the Governor's Budget. This reduction is primarily due to a revised caseload estimate of 696,059, down 5,865 persons from the Governor's Budget.

General Fund costs for 1980-81 are estimated to be $1,307.4 million, down $2.9 million from the Governor's Budget. This reduction is due primarily to a revised caseload estimate of 704,742, down 10,958 persons from the 715,700 persons estimated in the Governor's Budget. This caseload decline offsets an increase of $13.4 million in the estimated statutory cost-of-living adjustment of 14.65 percent, identified in the Governor's Budget, to an actual statutory cost-of-living increase of 15.48 percent.

AFDC		
	1979-80	-$22,200,000
	1980-81	-$29,300,000

General Fund grant costs for 1979-80 are now estimated at $964.8 million, down $22.2 million from the amount specified for the current year. This reduction is due to two factors:

1. A caseload reduction, primarily in the AFDC-BHI program, of approximately 6,532 persons from the Governor's Budget of 1,396,592 persons. The current caseload estimate for fiscal year 1979-80 is 1,390,060 persons.

2. As a result of Federal regulations, the 1979-80 Governor's Budget assumed an 80 percent grant supplementation budgeting system. A reestimate of the caseload affected by this system in the current year has reduced General Fund expenditure by $4.1 million from the $5.8 million estimated in the Governor's Budget.

General Fund grant costs for 1980-81 are now estimated to be $1,166.1 million, a decrease of $29.3 million from the Governor's Budget. This reduction is due primarily to the following:

1. A revised 1980-81 caseload estimate of 1,456,635 persons, down 20,505 persons from the Governor's Budget, resulting in a savings of $20.6 million.

2. The 1980-81 Governor's Budget assumed the continuation of an 80 percent grant supplementation budgeting system with AFDC grant cost of $8.1 million. A reestimate of the caseload affected by this system has reduced full year costs to approximately $2.0 million. Further, due to an appellate court's recent affirmation of a lower court's decision in the case of Garcia v. Swoap, the Department of Social Services will be replacing the 80 percent supplementation system with a concurrent month budgeting system on January 1, 1981. The implementation of concurrent month budgeting will reduce the estimated $2.0 million in grant costs by $0.5 million. This results in a net budgeting system cost of $1.5 million in 1980-81 which is $6.6 million below the original Governor's Budget estimate.

Offsetting the above reductions is an increase of $7.3 million for an actual statutory cost-of-living increase of 15.48 percent instead of the estimated 14.65 percent identified in the Governor's Budget.

Other Social Services Programs	1979-80	-$14,600,000
	1980-81	-$8,700,000

Significant changes to Other Social Services Programs are as follows:

County Administration	1979-80	(-$11,800,000)
	1980-81	(-$2,100,000)

The State's share of county administration costs for 1979-80 is now estimated to be $83.6 million, down $11.8 million from the Governor's Budget. This is due primarily to the receipt of an estimated $12.0 million in Federal funds, offsetting the previously budgeted General Fund for the administrative costs of non-AFDC child support enforcement. These savings are partially offset by an anticipated increase of $0.5 million for the State's share of administrative costs for 213,642 nonassistance food stamp households, an increase of 28,575 households from the Governor's Budget.

In 1980-81, costs are now estimated to be $99.0 million, down $2.1 million from the Governor's Budget. This reduction reflects the continuation of the same two factors affecting the current year reduction.

Special Social Services	1979-80	(-$2,900,000)
	1980-81	(-$7,000,000)

Total 1979-80 General Fund costs for Special Social Services Programs are now estimated to be $154.0 million, down $2.9 million from the Governor's Budget. This reduction is due to a combination of factors, such as a reduced estimate of adoption caseload from 2,715 to 2,595 and a reduced estimate for In-Home Supportive Services (IHSS) costs.

Total General Fund costs for 1980-81 are now estimated to be $188.4 million, down $7.0 million from the Governor's Budget. Factors contributing to this decrease include a reduced estimate in In-Home Supportive Services (IHSS) for workers' compensation costs, as well as reductions in the Facilities Evaluation and Adoptions estimates.

Other Health and Welfare	1979-80	-$1,400,000
	1980-81	+$7,700,000

In 1979-80, Health and Welfare programs other than those listed above account for a $1.4 million savings.

Expenditures for 1980-81 are now proposed to increase by $7.7 million. The major increase is in the Department of Health Services ($8.3 million) for cost-of-living (from 14.65 percent to 15.48 percent as in the AFDC and SSI/SSP Programs) and other adjustments to the statutory base for financial assistance to County Public Health programs. Expenditures for this purpose are increased from the Governor's Budget of $306.1 million to $314.4 million.

Correctional Programs	1979-80	+$2,000,000
	1980-81	-$700,000

In 1979-80, a net augmentation of $2.0 million is proposed, primarily composed of increased costs for food and medical services for inmates of the Department of Corrections. A net reduction of $0.7 million is proposed for 1980-81 since population growth in correctional institutions is now expected to be slightly less than anticipated.

Tax Relief	1979-80	-$24,800,000
	1980-81	+$19,700,000

Total expenditures for 1979-80 are expected to be $24.8 million lower than estimated in the Governor's Budget. This is because the proposed deficiency bill of $12.0 million for Renters' Tax Relief is no longer necessary. There are also savings of $5.5 million in 1979-80 for Personal Property Tax Relief due to a lower than anticipated property tax rate, savings of $1.6 million in the Senior Citizens' Property Tax Deferral Program due to decreased participation, and savings of $8.0 million in the Homeowner's Property Tax Relief Program. The Senior Citizens' Renters Tax Relief Program shows an increase of $2.3 million over the amount estimated in the Governor's Budget due to higher than anticipated participation.

In 1980-81, expenditures for Personal Property Tax Relief will be $493.4 million, up $26.7 million from the Governor's Budget. This increase results from a higher than anticipated increase in the California Consumer Price Index (CPI). The change in CPI for April 1980 over April 1979, which is the period specified in current statute, is now estimated to be 17.3 percent (the Governor's Budget assumed 12.7 percent).

The Department of Finance is recommending amendments to AB 1994 that would limit the growth in subventions to the percent change in CPI and population, or per capita personal income and population, whichever is less. This would make the provision consistent with the Proposition 4 limit. If this amendment to AB 1994 is adopted, the amount proposed in the Governor's Budget will be sufficient and the $26.7 million increase discussed above will not be necessary.

In addition, expenditures for Homeowners' Property Tax Relief will be $337 million in 1980-81, down $7.0 million from the Governor's Budget.

Capital Outlay	1979-80	-$18,600,000
	1980-81	+$21,600,000

Significant changes to capital outlay expenditures are as follows:

Developmental Services	1979-80	(-$14,400,000)
	1980-81	(+16,100,000)

The 1979-80 expenditures for Capital Outlay are down $14.4 million due to projected savings and adjustments to actual expenditures. This includes $10.7 million for hospitals serving the developmentally disabled and $3.7 million for programs serving the mentally disabled in hospitals administered by the Department of Developmental Services.

Expenditures for 1980-81 are now proposed to increase by $16.1 million over the Governor's Budget. This increase is due primarily to fire and life safety and environmental improvement projects for the developmentally disabled programs ($10.3 million) and programs for the mentally disabled ($4.1 million) in hospitals operated by the Department of Developmental Services. The increase in programs for the developmentally disabled, as proposed in Finance letters to your committee, reflects: (1) updated cost estimates provided by the Office of the State Architect, (2) three new projects, and (3) various revisions to existing construction schedules.

Mental Health	1979-80	(--)
	1980-81	(+$5,500,000)

Revised expenditures in 1980-81 for capital outlay projects for the State hospital programs operated by the Department of Mental Health are now estimated to be $27.5 million, up $5.5 million from the Governor's Budget. An additional $12.8 million has been requested for fire and life safety and environmental improvements at Metropolitan State Hospital. Various other capital outlay projects have been revised downward by $7.3 million, for a net change of $5.5 million in 1980-81.

All Other Expenditures	1979-80	-$6,900,000
	1980-81	-$2,100,000

The significant program in this category is:

Emergency Fire Suppression

Each year, the Department of Forestry has available $5.0 million specifically appropriated for emergency fire suppression activities. This amount is allocated by the Director of Finance upon the Department's request with appropriate expenditure detail and justification.

This year, the Department has experienced extraordinary fire conditions and has exhausted the $5.0 million available for emergency fire suppression. As of March 31, 1980, $9.9 million in costs associated with fire emergencies were incurred. The Department estimates, based on historical expenditure patterns, that an additional $4.4 million will be spent for the fourth quarter of the 1979-80 fiscal year. Therefore, the total need in 1979-80 for emergency fire suppression is estimated to be $9.3 million above the $5.0 million available.

Estimated Unidentifiable Savings	1979-80	+$50,000,000
	1980-81	--

When the Governor's Budget was presented in January, 1979-80 unidentifiable savings were estimated at $150.0 million. This May Revision is reflecting a savings of $81.0 million. However, another $100.0 million is estimated to be realized between now and when the books are closed on the 1979-80 fiscal year. Thus, we are making only a $50.0 million change to the estimated unidentifiable savings category.

Prior Year Adjustments	1979-80	-$63,800,000
	1980-81	--

Most changes are due primarily to adjustments in prior year accruals. The major changes are Department of Youth Authority-Legislative Mandates ($18.0 million), Department of Education-Child Nutrition Program ($15.9 million), Department of Social Services ($8.0 million), Employment Development Department ($2.7 million), University of California ($3.9 million), California State Universities and Colleges ($2.0 million), and the Department of Industrial Relations-Legislative Mandates ($2.0 million).

For your information, during the 1980-81 fiscal year, the Federal Government may pay two major retroactive claims for specified services rendered to Medi-Cal recipients in prior years. These Medi-Cal recoveries are estimated to be $128.2 million. However, language in the 1979 Budget Act specifies that recoveries of this type are not to be included in the estimated General Fund Balance Available. This language was provided because of the uncertainty of the State receiving these funds from the Federal Government for these type of claims. Therefore, the recoveries are not included in this May Revision presentation. They will instead be treated as a prior year adjustment if and when the State actually receives the funds from the Federal Government.

GENERAL FUND

RESERVE CHANGES

(See Table IV)

Reserve for Economic Uncertainties	1979-80	--
	1980-81	+$200,000,000

Section 12.3 of the 1980-81 Budget Bill proposed the establishment of a $400.0 million reserve for economic uncertainties. It was based on the difference between the January Budget's mid-range economic forecast and the low-range for 1979-80. The difference between the January Budget's mid range and low range revenue forecast for 1980-81 was $678.0 million. Given the current uncertainties of the recession, I have proposed by letter that Section 12.3 be revised so that the reserve for economic uncertainties be increased to the amount that would otherwise be available as surplus, but not exceeding $600.0 million. It should be noted that this amount is considerably less than the 5 percent reserve proposed in a bill before the Legislature and commonly accepted in other states as a prudent reserve.

GENERAL FUND

BUDGET SUMMARY CHANGES

(See Table IV)

The above current year revenue and expenditure revisions and the prior year adjustments change the estimated Balance Available as of June 30, 1980 from $1.8 billion to $2.1 billion.

With the proposed changes in the reserve for economic uncertainties and the other changes for the budget year, the Balance Available as of June 30, 1981 is estimated to be $77.9 million. Any legislative augmentations to the budget or financial legislation should be within that amount or be financed by making reductions in other programs in the budget before you.

Marylnn Graves

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Attachments

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TABLE I

MAY REVISION

SELECTED CALIFORNIA ECONOMIC DATA

	1979	Percent Change	1980	Percent Change	1981	Percent Change
Personal Income (billions)	$227.4	14.2	$255.5	12.4	$286.7	12.2
Budget estimate	$226.5	13.8	$251.2	10.9	$281.8	12.2
Corporate Profits (billions)	$26.2	12.0	$27.5	5.0	$30.7	11.6
Budget estimate	$26.3	13.7	$26.3	--	$31.2	18.6
Taxable Sales (billions)	$131.7	16.1	$146.4	11.2	$169.4	15.7
Budget estimate	$131.1	15.5	$146.4	11.7	$169.4	15.7
Housing Units Authorized (000)	208	-14.8	130	-37.6	185	42.3
Budget estimate	212	-13.1	165	-22.2	230	39.4
New Car Sales (000)	1,127	-4.9	970	-13.9	1,070	10.3
Budget estimate	1,140	-3.8	1,070	-6.1	1,150	7.5
Consumer Price Index: change	10.8%	--	16.4%	--	10.7%	--
Budget estimate	10.7%	--	11.7%	--	8.3%	--
Civilian Employment (000)	10,286	4.0	10,404	1.1	10,683	2.7
Budget estimate	10,248	3.8	10,443	1.9	10,893	4.3
Unemployment Rate	6.2%	--	7.3%	--	8.4%	--
Budget estimate	6.2%	--	7.6%	--	7.2%	--
Wage and Salary Employment (000)	9,681	5.3	9,885	2.1	10,030	1.5
Budget estimate	9,681	5.0	9,812	1.4	10,201	4.0

NOTE: Percent changes based on unrounded data.

May 29, 1980

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TABLE IA

MAY REVISION

SELECTED UNITED STATES ECONOMIC DATA

	1979	Percent Change	1980	Percent Change	1981	Percent Change
Real Gross National Product (billions)	$1,431.6	2.3	$1,415.6	-1.1	$1,429.8	1.0
Budget estimate	$1,426.7	2.0	$1,401.4	-1.8	$1,464.0	4.5
Personal Income (billions)	$1,924.2	12.0	$2,138.4	11.1	$2,373.7	11.0
Budget estimate	$1,922.6	11.9	$2,122.2	10.4	$2,369.2	11.6
Corporate Profits before taxes (billions)	$236.6	14.9	$240.0	1.4	$266.3	10.9
Budget estimate	$233.5	13.3	$214.2	-8.3	$254.3	18.7
Housing Starts (000)	1,721.2	-14.2	1,007.3	-41.5	1,420.1	41.0
Budget estimate	1,747.0	-13.0	1,323.4	-24.2	1,757.7	32.8
New Car Sales (millions)	10.7	-5.3	9.0	-16.0	10.3	14.8
Budget estimate	10.6	-6.4	9.7	-8.6	10.5	8.7
Consumer Price Index: change	11.3%	--	14.0%	--	11.1%	--
Budget estimate	11.3%	--	11.6%	--	8.7%	--

NOTE: Percent changes based on unrounded data.

May 29, 1980

5266D

TABLE II

MAY REVISION

REVENUES AND TRANSFERS

GENERAL FUND
(Millions)

	Governor's Budget	May Revision	Change
1979-80			
Bank and Corporation Tax	$2,566.4	$2,467.4	-$99.0
Sales and Use Tax	6,460.0	6,470.0	+10.0
Personal Income Tax	6,275.0	6,460.0	+185.0
Other Revenues and Transfers	2,479.6	2,509.0	+29.4
Totals	$17,781.0	$17,906.4	+$125.4
1980-81			
Bank and Corporation Tax	$2,723.0	$2,806.0	+$83.0
Sales and Use Tax	7,240.0	7,240.0	--
Personal Income Tax	6,800.0	6,670.0	-130.0
Other Revenues and Transfers	2,521.0	2,577.8	+56.8
Totals	$19,284.0	$19,293.8	+$9.8
Proposed Legislation--Tidelands Oil Income	77.8 a/	--	-77.8
Grand Totals	$19,361.8	$19,293.8	-$68.0

a/In January 1980, the Governor's Budget included an estimated $77.8 million of General Fund revenues for 1980-81 from the Tidelands Oil Income. Since that time, circumstances have changed. The revised estimate projects a COFHPE Fund balance of $870 million on June 30, 1981. This consists of an estimated June 30, 1980 COFPHE Fund balance of $295 million (up from the $180 million in the Governor's Budget) and a revised estimate of $575 million in the 1980-81 fiscal year (up from the $270 million in the Governor's Budget). The Legislature is considering several proposals for the use of the Tidelands Oil Income and since these funds do not currently accrue to the General Fund, the Department of Finance is excluding any such revenues from the May Revision presentation.

May 29, 1980

4975D

TABLE III

MAY REVISION

EXPENDITURES

GENERAL FUND

(Millions)

	1979-80		1980-81	
	May Revision	Change	May Revision	Change
K-12	$6,847.5	-$3.6	$7,277.1	-$38.5
UC	905.9	--	969.7	+10.0
CSUC	815.7	-5.7	854.3	+1.5
Medi-Cal	2,057.9	-25.1	2,311.1	+50.0
Developmental Disabilities	441.0	+0.1	499.1	+13.2
Mental Health Services	484.8	-10.3	553.4	+0.7
SSI/SSP	1,082.7	-5.1	1,307.4	-2.9
AFDC	964.8	-22.2	1,166.1	-29.3
Other Social Services	289.3	-14.6	343.9	-8.7
Other Health and Welfare	531.4	-1.4	682.4	+7.7
Correctional Programs	533.2	+2.0	539.5	-0.7
Tax Relief	995.9	-24.8	1,342.9	+19.7
Capital Outlay	214.3	-18.6	320.7	+21.6
Estimated Unidentifiable Savings	-100.0	+50.0	-200.0	--
All Other Expenditures	2,555.8	-6.9	2,823.0	-2.1
Totals	$18,620.2	-$86.2	$20,790.6	+$42.2

May 29, 1980

4826D

TABLE IV

MAY REVISION

SUMMARY OF CHANGES TO THE GENERAL FUND

(Millions)

	1979-80	1980-81
Changes in Balance Available:		
1979-80 Balance Available	--	+$275.4 [a]
Prior Year Adjustments	+$63.8	--
Revenues and Transfers	+125.4	+9.8
Proposed Legislation-Tidelands Oil Income	--	-77.8
Expenditures	+86.2	-42.2
Changes in Reserves	-5.2	-200.0
Total Changes	+$270.2	-$34.8
Balance Available per Governor's Budget	$1,834.8	$112.7
Total Changes	+270.2	-34.8
Balance Available--May Revision	$2,105.0	$77.9
Federal Revenue Sharing Fund--Cash Balance	*$289.0*	*$160.0*

[a] Includes total changes for 1979-80 plus changes in Reserves.

May 29, 1980

4975D

TABLE V

MAY REVISION

GENERAL BUDGET SUMMARY

GENERAL FUND

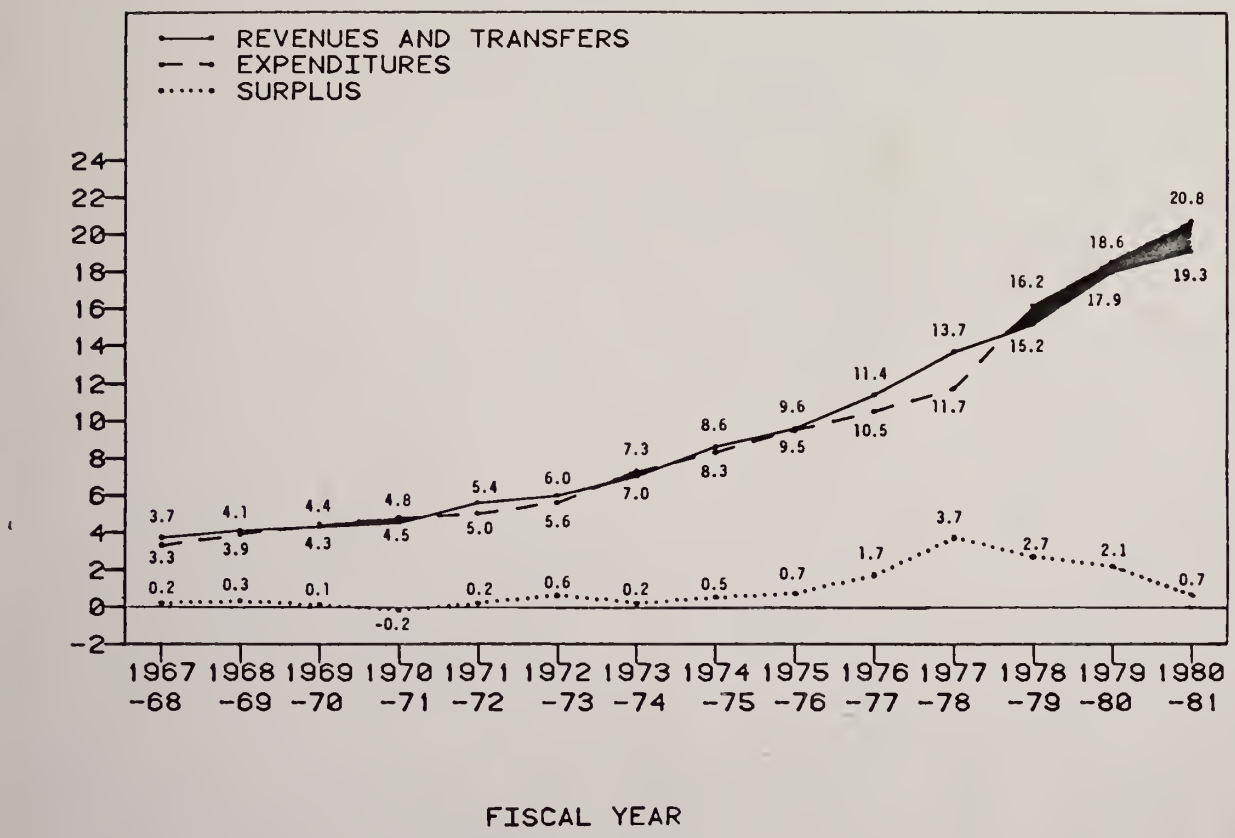
(Millions)

	1979-80	1980-81
Beginning Resources	$2,969.4	$2,255.6
Revenues and Transfers	17,906.4	19,293.8
Total Available	$20,875.8	$21,549.4
Expenditures	18,620.2	20,790.6
Reserves:		
Unencumbered Balances of Continuing Appropriations	150.6	80.9
Reserve for Economic Uncertainties	--	600.0
BALANCE AVAILABLE	$2,105.0	$77.9
Federal Revenue Sharing Fund--Cash Balance	*$289.0*	*$160.0*

May 29, 1980

4975D

COMPARISON OF CURRENT INCOME TO CURRENT EXPENDITURES
GENERAL FUND



May 29, 1980